

Larry E. Craig, Chairman
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Conference Report Highlights

June 18, 1998

Conference Report to Accompany H.R. 2646, Education Savings and School Excellence Act

Conference Report No. 105-577 was reported from conference June 15, 1998. The House adopted the conference report earlier today by a vote of 225-197.

Revenue Provisions Highlights

- The conference report increases from \$500 (current law) to \$2,000 the annual contribution limit for education savings accounts. The legislation also expands the definition of qualified education expenses (currently limited to higher education) to include expenses for grades K through 12. This provision expires December 31, 2002.
- H.R. 2646 provides an exclusion from gross income for distributions made from a qualified state tuition program that are used for tuition and other expenses related to attending college (including graduate school) or vocational school. Beginning in 2006, private colleges or a group of private colleges will be allowed to offer pre-paid tuition programs. Contributions to such accounts are limited to \$5,000 per year and \$50,000 in the aggregate per beneficiary.
- H.R. 2646 extends (until December 31, 2002) the current \$5,250 per-year exclusion for employers who pay for their employees' tuition. Unlike the Senate bill, the conference report does not reinstate the exclusion for graduate-level courses.
- The conference report, like the Senate bill, assists local governments in issuing bonds for school construction by increasing the small-issuer exception from \$10 million to \$15 million, provided that at least \$10 million of the bonds are issued to finance public schools.
- Like the Senate bill, the conference report provides tax-free treatment for National Health Corp Scholarships. In addition, the conferees extended tax free treatment to Hebert Armed Forces Health Professions Scholarships.
- The Joint Committee on Taxation estimates the 10-year costs to be: \$1.5 billion for the Coverdell A+ savings accounts; \$1.5 billion for the prepaid tuition accounts; \$858 million for the extension of the employer-provided education assistance; and \$157 million for the school bonds provision. The total 10-year cost of the legislation is \$4.029 billion. The offset is provided by overruling the *Schmidt Baking* case with respect to vacation and severance pay, amounting to \$4.053 billion from 1998-2007 (resulting in an anticipated surplus of \$24 million). Conferees dropped the foreign tax carryover provision in the Senate bill.

Highlights of Non-Revenue Provisions

- **National Testing:** Conferees *dropped* Senate language that would have prohibited federally sponsored testing unless specific authorizing language were enacted. The provision instead is expected to be added to the Labor-HHS appropriations bill.
- **Student Improvement Incentive Awards:** Conferees *accepted* the Senate language allowing State education agencies to make awards to public schools that demonstrate a high level of academic achievement.
- **State Incentives for Teacher Testing and Merit Pay:** Conferees *adopted* Senate language authorizing the Department of Education to provide awards to states that test their K-12 teachers every three to five years in the subjects they teach and that have a merit pay program.
- **Same Gender Schools and Classrooms:** Conferees *adopted* Senate language to allow federal funding for education reform projects that provide same-gender schools and classrooms, as long as comparable opportunities are afforded both sexes.
- **Education Block Grant:** Conferees *dropped* Senate language (Gorton) that would have given States a choice of receiving education funds as a block grant or to continue receiving funding under the current categorical programs. Conferees *included* sense of the Congress language that 95 cents of each federal dollar should go to the classroom.
- **Reading Excellence:** Conferees *adopted* Senate language authorizing a literacy program that focuses on training teachers to teach reading using scientifically proven methods such as phonics. The President supports the program and \$210 million was appropriated last year to establish a literacy program.
- **Drop-Out Prevention:** Conferees *adopted* Senate language authorizing a National Drop-Out Prevention program.
- **Multilingualism Study:** Conferees *adopted* the Senate provision authorizing a study on multilingualism and added a finding that States and local governments are responsible for the development of policies on multilingualism.
- **Safer Schools:** Conferees *adopted* Senate language providing that weapons brought to school are admissible as evidence in any internal school disciplinary proceeding.

Administration Position

It is understood the Administration's strong opposition to expanding education savings accounts, as stated in its March 12, 1998 Statement of Administration Policy, remains unchanged: "If S. 1133, or its House companion measure H.R. 2646, were presented to the President, the Secretaries of Education and the Treasury would recommend that he veto the bill because it is bad education policy and bad tax policy."

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